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August 1, 1997

HAND DELIVERED

Mr. K. David Waddell
Executive Secretary
TENNESSEE REGULATORY AUTHORITY
460 James Robertson Parkway
Nashville, TN 37243-0505

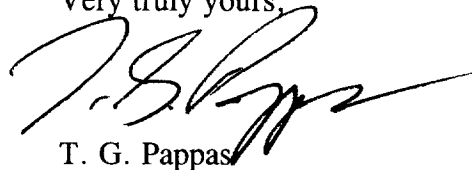
IN RE: Universal Service Generic Contested Case
Docket No. 97-00888

Dear Mr. Waddell:

I am enclosing fourteen (14) copies of the Response of the Coalition of Small LECs and Cooperatives to Director Kyle's request that parties respond in writing as to the Cost Model Issue by August 1, 1997. We would appreciate it if you would furnish the enclosed to Director Kyle.

With kindest regards, I remain

Very truly yours,



T. G. Pappas

TGP/br#541786

Enclosures

cc: Each Member of the Coalition of Small LECs
and Cooperatives
Counsel on Service List

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EXECUTIVE SECRETARY
AUG 1 1997

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In Re:

**UNIVERSAL SERVICE GENERIC
CONTESTED CASE**

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Docket No. 97-00888

**RESPONSE OF THE COALITION OF SMALL LECS AND
COOPERATIVES TO THE HEARING OFFICER'S REQUEST
AS TO THE COST MODEL ISSUE**

INTRODUCTION

The Coalition of Small LECs and Cooperatives ("Coalition") respectfully submits this response to Director Kyle's request for comments regarding the cost model issue being considered by the TRA in response to the Federal Communications Commission ("FCC") *Report and Order* released on May 8, 1997 in CC Docket 96-45 (*Universal Service Order*). The Coalition would support the TRA in deciding to conduct studies on its own to determine estimates of carriers costs. However, the Coalition requests that if the TRA does elect to participate in submitting cost estimate information to the FCC in response to the *Universal Service Order*, this effort should specifically focus on and apply solely to the non-rural telephone companies providing service within Tennessee.

BACKGROUND

In its *Universal Service Order*, the FCC initiated the process to redefine federal universal service support mechanisms consistent with the policies outlined in the

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Telecommunications Act of 1996. The FCC has tentatively decided to continue its attempt to find and develop estimates of so-called “forward-looking economic cost” for the purpose of calculating one component (the level of cost) that leads to the calculation of the amount of cost recovery support high cost areas receive.

As the TRA is aware, the FCC also invites the States to provide assistance in designing cost studies to determine estimates of carriers’ costs. See *Universal Service Order* at paras. 206 and 247-249. The FCC has asked each State to elect by August 15, 1997, whether that State will conduct such studies and, if so, to submit cost estimate information to the FCC by February 6, 1998. *Id.* At para. 248.

As the TRA is also aware, the models of costs that have been proposed to the FCC have not yielded dependably accurate estimates of cost necessary to base support for universal service in high cost areas. *Id.* At para. 244. Consequently, the FCC has concluded that the available models should not be used for universal service purposes in their current form. *Id.* At para. 245. The FCC hopes to further develop a model to be finalized by the end of 1997 to use for universal service purposes for non-rural carriers. *Id.*

CONCERNS OF THE COALITION

The FCC recognized in the *Universal Service Order* that significant distinctions exist between non-rural and rural telephone companies which could render costing methodologies for the non-rural companies inapplicable to rural companies. The Coalition is generally concerned that the meaningful distinctions that exist should not be overlooked in the event that the TRA elects to participate in the development of carrier

costs. The imposition of inappropriate costing methodologies and models on rural telephone companies may yield inadequate universal service mechanisms that discourage infrastructure investment and new service deployment in the rural areas of Tennessee.

The experience to date in the industry efforts to develop cost models has demonstrated that the probability of success in developing an accurate mode remains highly uncertain, even with the assistance of the States. Moreover, the FCC has recognized that a greater degree of uncertainty surrounds the accuracy of cost models with respect to application to rural telephone companies and the most rural, high cost areas.

Accordingly, the FCC has concluded that models or estimates of the so-called forward looking economic costs should ultimately be applied to rural telephone companies *if and only if* validation can be obtained that the results are accurate and lead to sufficient and reliable high cost universal service support levels consistent with the nations universal service goals. Id. At para. 252. For this reason, the FCC has adopted a distinct rural task force, for development of models potentially to be applied to rural telephone company areas. Id. At para. 253. The Coalition agrees with the observation made by the FCC.

PUBLIC INTEREST DISCUSSION

To the extent that models within the State of Tennessee are developed successfully by the TRA, the public interest will be served by ensuring that the cost models apply only to the larger non-rural telephone companies. The distinctions that exist between rural telephone companies and non-rural telephone companies have been

well recognized by both the TRA and the Federal government, and most recently in the *Universal Service Order*. As noted above, these distinctions raise significant concern that costing models deemed appropriate for non-rural companies may produce inappropriate results for rural telephone companies which lead to insufficient universal support mechanism, inordinate basic service rate requirements, and the discouragement of investment in rural infrastructure.

The accumulation of information and the analysis of potential data associated with the development of so-called forward looking economic cost studies for the larger non-rural companies alone is an enormous task. There exists no present need or requirement to incorporate rural telephone companies into this process. To do so will require a significant investment of limited resources in order to ensure that the distinct characteristics of each company and the area each service is thoroughly considered in the process.

The FCC has determined that the existing cost study and average schedule process for determining rural company embedded costs will continue until the year 2001. At that point, rural companies will begin a transition to new forward-looking cost mechanisms *if* satisfactory proxy models can be developed. Significant work will need to be accomplished before a satisfactory method for rural company forward-looking costs can be implemented. The Coalition suggests coordination of the state and interstate processes.

CONCLUSION

Accordingly, and in accordance with the policy set forth by the FCC in the

Universal Service Order, the Coalition supports the notion of the TRA conducting studies on its own to determine estimates of carriers costs, but respectfully asks that the TRA not include the rural telephone companies in any present effort to develop costing data, and to specifically indicate to all potential parties that the results of any such effort will not be applicable to the rural telephone companies.

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Response has been sent Via U.S. Mail, postage prepaid, or hand delivered, to counsel set out below this 1st day of August, 1997.

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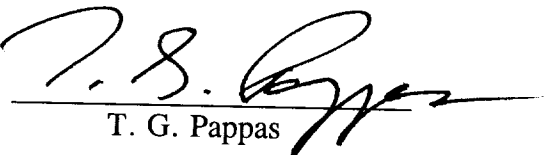
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